

21.03 Contribution Revenue

Many contributions received by a not-for-profit organization (NPO) are **unrestricted gifts** of cash, and are reported as revenues in the **without donor restrictions** (no DR) section of the statement of activities (ASC 958):

Cash (operating activity)	100	
Revenues (no DR)		100

It is common, however, for NPOs to **receive gifts** that are **restricted**.

For example, a hospital might receive a donation of \$500 with the stipulation that it be spent on the hospital's cancer research program. This causes the donation to be included in **with donor restrictions** (DR), and is recorded as follows:

Cash (operating activity)	500	
Revenues (DR)		500

Later, when the hospital actually **spends the money** on research, that satisfies the restriction.

Two entries are needed. The first is to report the release of the restriction:

Net assets released (DR)	500	
Net assets released (no DR)		500

The second is to report the research costs:

Expenses (no DR)	500	
Cash		500

Note: The net of the increase in "net assets without donor restrictions" (no DR) and the increase in the "Expense" (decreases – no DR) has *no net effect* on net assets without donor restrictions.

Finally, a donation of cash may stipulate that only the income generated from investing the cash may be spent. The donation is reported as **net assets with donor restrictions**.

For example, assume \$1,000,000 was donated to **endow** an ongoing cancer research program. The donation itself is reported as follows:

Cash (operating activity)	1,000,000	
Revenues (DR)		1,000,000

If the money earns interest income of \$40,000, that money is spendable:

Cash	40,000	
Revenues (no DR)		40,000

Statement of Cash Flows

The Statement of Cash Flows is comparable to the same statement for private businesses, reporting cash flows from operating, investing, and financing activities. Either the direct or indirect method may be used.

- **Operating** activities represent most of the cash flow effects of the items reported in the **statement of activities**.
 - Inflows include revenues collected
 - Outflows include expenses paid.
 - Contributions that can be spent on operations are included as well.
- **Investing** activities represent the cash flow effects of **asset** transactions.
 - Inflows include proceeds from the sale of assets and sales of works of art.
 - Outflows include payments for asset purchases.
- **Financing** activities represent the cash flow effects of **liability** transactions.
 - Inflows include proceeds from loans.
 - Outflows include principal payments on loans.
 - Contributions that are subject to donor restrictions are included as well.
 - Financing activities includes two categories:
 - Proceeds from donor-restricted contributions
 - Other financing activities

Statement of Cash Flows Summary

- **Operating activities** – flow from statement of activities
 - Direct or indirect; if direct, indirect reconciliation **not** required, though may be presented, as shown below
 - Revenues with and without donor restrictions
 - Revenues, expenses, interest income/expense, dividend income
 - Contribution revenue is usually operating
- **Investing activities** – flow from buying and selling assets
 - Investments acquired/sold
 - PP&E acquired/disposed of
- **Financing activities** – flow from borrowings and repayments
 - 2 categories
 - Proceeds from donor-restricted contribution
 - Other financing activities
 - Donor-restricted revenue
 - Eg, money restricted for L/T purpose
 - Payment on bonds, N/P, money restricted for endowment
 - Money restricted for acquisitions of PP&E
 - Contribution for long-term purpose is financing.

Not-for-Profit Organization STATEMENT OF CASH FLOWS

Year Ended June 30, 20X1
(in thousands)

Cash flows from operating activities:

Cash received from service recipients	\$5,220
Cash received from contributors	8,030
Cash collected on contributions receivable (promises to give)	2,615
Interest and dividends received	8,570
Miscellaneous receipts	150
Interest paid	(382)
Cash paid to employees and suppliers	(23,808)
Grants paid	<u>(425)</u>
Net cash used by operating activities	<u>(30)</u>

Cash flows from investing activities:

Insurance proceeds from fire loss on building	250
Purchase of equipment	(1,500)
Proceeds from sale of investments	76,100
Purchase of investments	<u>(74,900)</u>
Net cash used by investing activities	<u>(50)</u>

Cash flows from financing activities:

Proceeds from contributions restricted for:

Investment in perpetual endowment	200
Investment in term endowment	70
Investment in land, buildings, and equipment	1,210
Investment subject to annuity trust agreements	<u>200</u>
	<u>1,680</u>

Other financing activities:

Interest and dividends restricted for reinvestment	300
Payments of annuity obligations	(145)
Payments on notes payable	(1,140)
Payments on long-term debt	<u>(1,000)</u>
	<u>(1,985)</u>

Net cash used by financing activities

(305)

Net decrease in cash and cash equivalents

(385)

Cash and cash equivalents at beginning of year

460

Cash and cash equivalents at end of year

\$75**Reconciliation of change in net assets to net cash used by operating activities:**

Change in net assets	\$16,300
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Adjustments to reconcile change in net assets to net cash used by operating activities:

Depreciation	3,200
Fire loss	80
Actuarial loss on annuity obligations	30
Increase in accounts and interest receivable	(460)
Decrease in inventories and prepaid expenses	390
Increase in contributions receivable	(325)
Increase in accounts payable	670
Decrease in refundable advance	(650)
Decrease in grants payable	(425)
Contributions restricted for long-term investment	(2,740)
Interest and dividends restricted for long-term investment	(300)
Net unrealized and realized gains on long-term investments	<u>(15,800)</u>
Net cash used by operating activities	<u>\$ (30)</u>

Supplemental data for noncash investing and financing activities:

Gifts of equipment	\$140
Gift of paid-up life insurance, cash surrender value	\$80